[SENTRY SELECT DIVERSIFIED INCOME TRUST]

Diversified Income Trust provides income stability with the potential for capital growth

[2000 ANNUAL REPORT]

PROFILE ❧ **Diversified Income Trust** is a closed-end trust with the investment objective to maximize monthly distributions through investments in royalty and income trusts, high yielding stocks and bonds, while minimizing risk through professional management and diversification. ❧ The investment manager employs a disciplined, bottom-up security selection methodology based on fundamental research. This approach also relies on quantitative research and analysis to evaluate a company's profitability, liquidity, operating and administrative costs, cash flow and the performance of management.

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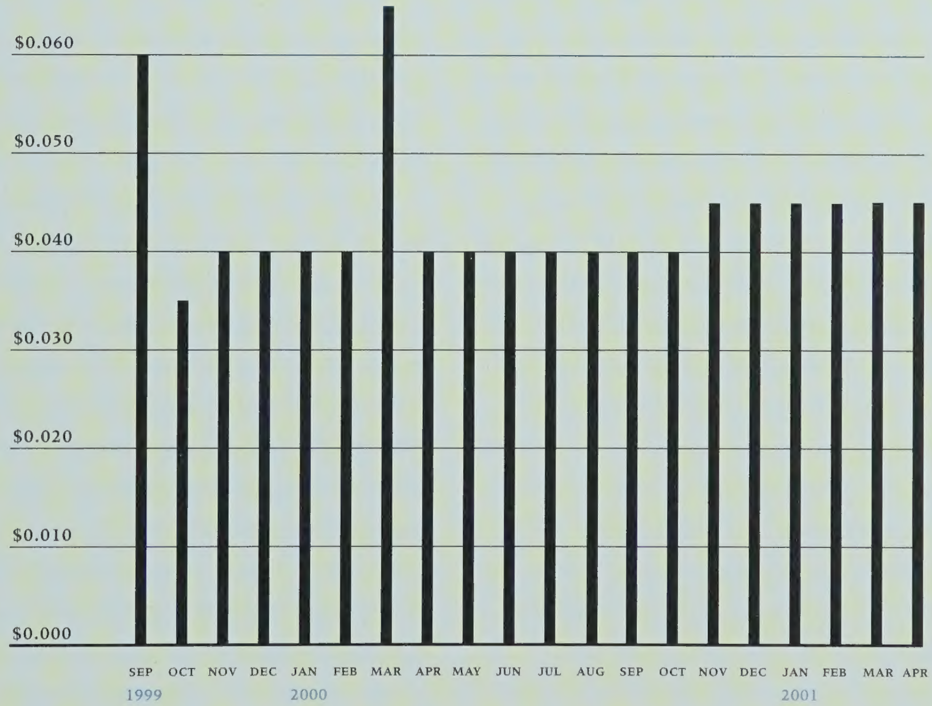
Financial Highlights

FOR THE YEARS ENDED DECEMBER 31,	**2000**	1999
Total Assets	$ 135,192,479	$ 103,294,626
Net Asset value	$ 129,487,714	$ 87,861,956
Net Asset value per unit	$ 4.70	$ 4.29
Distributions to unitholders	$ 12,910,586	$ 8,788,300
Distributions to unitholders per unit	$ 0.515	$ 0.41

Monthly Cash Distributions in 2000 and 2001



[MESSAGE FROM THE PRESIDENT]

I AM PLEASED TO PRESENT THE 2000 ANNUAL REPORT for our Sentry Select Diversified Income Trust. This report includes a review of the investment portfolio, management's discussion and analysis of the year's results, and the audited financial statements as at December 31, 2000.

Strong prices of oil and gas provided outstanding results from many royalty trusts held in the portfolio. Our Trust unitholders benefited from these favourable conditions through higher and more stable monthly cash distributions.

Many of the important events of 2000 follow from initiatives undertaken in 1999. In June 1999, unitholders overwhelmingly approved a change that removed the investment restrictions on the trust's investment options. The Trust may now include in the portfolio a broader selection of other trusts, limited partnerships and other high-yielding securities. The result is a Trust that is even more diversified, less vulnerable to the volatility of commodity prices and more likely to deliver consistent distributions. In November, the Trust increased the regular monthly distribution to $0.045 per unit, from $0.04.

In September, the Trust appointed a new adviser, Sentry Select Capital Corp ("Sentry Select"). Sentry Select is an affiliated company of NCE Resources Group, and features a team of six portfolio managers and analysts experienced in managing trusts and other high-yielding investments. James Alexander (Sandy) McIntyre joined the team as senior portfolio manager responsible for Sentry Select Diversified Income Trust. Sandy has 25 years of high-yield investment experience, primarily with Jones Heward Investment Management, where he was a member of the Investment Policy Committee with responsibility for income trust and fixed income investments. In his new position, Sandy is supported by the other members of the Sentry Select portfolio management team.

"The strong prices of oil and gas provided outstanding results from many royalty trusts held in the portfolio. Our Trust unitholders benefited from these favourable conditions through higher and more stable monthly cash distributions."

An Exchange Offering introduced in November 1999 closed January 13, 2000. As part of this transaction, the trust acquired approximately $13 million in securities of various royalty trusts, income trusts and limited partnerships by issuing 3,705,017 trust units and warrants. The Trust also issued 20,467,082 warrants to existing unitholders. Each warrant entitled the holder to purchase one unit at a price of $3.5113 on or before February 28, 2001. More than 92 per cent of these warrants were exercised, adding about $78.2 million to the Trust.

The Trust continues to evolve, in order to meet the needs of its investors. In November, unitholders approved additional changes to the Declaration of Trust, including:

- replacing the existing redemption program with a mandatory market purchase program. Under the program, the Trust will purchase units in the market at the prevailing price if that price is less than 90% of the net asset value of the Trust, determined at the beginning of each calendar quarter. The Trust can also continue to use its normal course issuer bids to assist in adding unitholder value.
- an amendment providing for the payment of distributions in cash rather than the automatic reinvestment of distributions in units,
- a name change, effective March 1, 2001, to Sentry Select Diversified Income Trust, to better reflect the change in investment management.

The Trust introduced an advertising campaign in late 2000. While raising the profile of the Trust, the ads also informed investors of the Trust's unique advantages — in particular, how its yield compares to some of the alternative products investors may be considering to meet the need for income in their portfolios.

Through these initiatives undertaken in 2000, the Trust is well positioned to create additional value for unitholders. The Trust should continue to benefit from the strong energy prices, as well as improving cash flows in the real estate sector. Portfolio diversification should cushion the Trust from volatility and ensure consistent reliable distributions.

To conclude, I would like to thank our unitholders and the trust investment dealer community for their confidence and support. I would also like to thank the Directors, management team and all employees for their devoted efforts in the past year.

Sincerely,

John Driscoll

John F. Driscoll
President and Chief Executive Officer
NCE Diversified Management Inc.

Left to right: Greg Walker, Research Analyst; Ara Nalbandian, Research Analyst; Glenn MacNeill, Vice-President, Investments; Sandy McIntyre, Vice-President and Senior Portfolio Manager; Eric Van Viegen, Research Analyst; John Sinkins, Senior Portfolio Manager.

Portfolio management of Diversified Income Trust is the responsibility of the Sentry Select Investment Management team. Here are brief profiles of lead portfolio manager James Alexander (Sandy) McIntyre and the other team members:

James Alexander (Sandy) McIntyre
Vice-President and Senior Portfolio Manager
Sandy McIntyre has more than 25 years experience managing portfolios for high net worth individuals and charitable foundations. In addition to guiding the selections of the Sentry Select Diversified Income Trust, he is the lead portfolio manager for two Sentry Select mutual funds, Real Estate Securities and Precious Metals Growth. Prior to joining Sentry Select last summer, he worked for 20 years with Jones Heward Investment Management Inc., where he was a member of the Investment Policy Committee with responsibility for high-yield investments including royalty and income trusts.

Sandy's investment approach to the Sentry Select Diversified Income Trust involves using a proprietary model to project future distributions from each investment, as well as analyzing each holding's growth prospects. Technical analysis shows how each investment is faring against its competitors and its own recent history. Meetings with management and plant tours provide a more complete picture of each investment's prospects.

Sandy graduated from the University of Toronto in 1974. He has completed the Canadian Securities Course, the Ontario Mortgage Brokers Course and the Canadian Options Course.

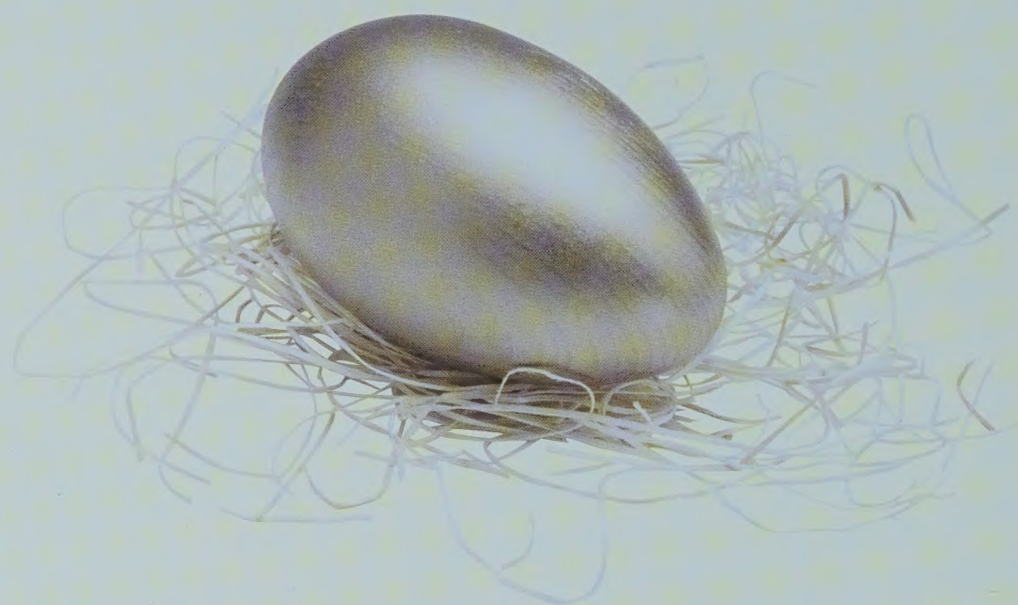
Glenn MacNeill, P. Eng
Vice-President, Investments
Glenn MacNeill joined Sentry Select Capital Corp. in April 1999. He has more than 25 years experience in portfolio management, corporate finance and equity/debt analysis. Glenn is also a professional engineer, graduating with a Mechanical Engineering degree from Queen's University. His work experience includes a number of senior positions in oil and gas research analysis. He has a number of professional designations, most recently completing the Partners, Directors and Senior Officers Qualifying Exam.

John Sinkins, CFA
Senior Portfolio Manager
John Sinkins is Senior Financial Analyst for Sentry Select Capital Corp. He is the lead portfolio manager for a number of the Sentry Select mutual funds. Prior to joining Sentry Select in 1997, John was a financial consultant. He graduated from the University of Toronto in 1988, and was awarded his CFA designation from the Association for Investment Management and Research in 1998. He has completed a number of advanced courses, including the Derivatives Fundamentals Course and the Options Licensing Course.

Eric Van Viegen
Research Analyst
Eric graduated from the University of Western Ontario in 1994 and worked for Pembina Exploration and Royal Trust Investment Counsel before joining Sentry Select in 1998. He is currently enrolled in the CFA program.

Greg Walker
Research Analyst
Greg joined Sentry Select in 2000, and has completed two levels of the CFA program. He graduated from the University of Western Ontario in 1993, and has held a number of positions in the mutual fund industry with leading firms such as Mackenzie Financial, CPI Capital Management and AIM Funds Management.

Ara Nalbandian, CFA
Research Analyst
Ara received his CFA designation in 2000, and joined Sentry Select in 2000. Prior to that, he worked for five years in the private client divisions of a number of Canada's largest brokerages, including RBC Dominion Securities and BMO Nesbitt Burns. He is enrolled in the Chartered Market Technicians program.



The prime objective of Diversified Income Trust is to provide income stability with the potential for capital growth. It is best suited to investors looking for a dependable, steady stream of income.

The Income Needs of Canadian Investors

The prime objective of Sentry Select Diversified Income Trust is to provide income stability with the potential for capital growth. It is best suited to investors looking for a dependable, steady stream of income.

To achieve this objective, the Trust invests in royalty and income trusts, real estate investment trusts (REITs) and other high-yielding investments.

Canadians have many choices to meet their income needs. Guaranteed investment certificates (GICs), government bonds, high-yield bonds, bond funds, preferred shares and dividend funds all

generate some level of income. Many investors are looking for higher yielding investments that do not rely on capital gains.

Income trusts, royalty trusts and real estate investment trusts (REITs) are growing in popularity as investors appreciate the trusts' ability to generate a steady tax-advantaged stream of income. Individual investors and institutional investors such as pension fund and mutual fund managers are choosing these types of investments to meet their income needs.

Types of Trusts

When investors put their money into a royalty trust, income trust, or real estate investment trust, what exactly are they buying? In some respects, they are buying a share of a commercial enterprise – not unlike a share in a conventional corporation.

One difference between a trust and a corporation is structural. A corporation's net earnings (revenues less expenses and taxes) can be either distributed to investors through dividends, or kept in the business through retained earnings. In a trust, the dollars that would normally flow to retained earnings are instead paid out to the investor. This restricts management's ability to re-invest in the business. As a result, it places a premium on the ability of the management to generate profits, independent of the need to finance the enterprise's growth.

Here is a brief profile of the different kinds of investments Sentry Select Diversified Income Trust may choose for its portfolio:

Royalty Trusts

Almost any natural resource asset that produces a steady stream of cash flow can be held in a royalty trust structure. A royalty trust purchases a 99% royalty from a company that owns producing resource properties. This entitles the trust to receive royalty income, which is essentially the net cash flow after expenses as the resource is produced. Investors can purchase units of these trusts. The income received by the trust is paid to unitholders through cash distributions. Acquisitions and developments of existing properties can add to the reserve base.

Oil and gas assets are particularly well suited to royalty trusts because the tax pools associated with the acquisition of an oil and gas royalty can be passed along to the unitholder through the trust, providing tax benefits. Investors seeking a steady stream of income distributions prefer assets with a relatively long life.

Royalty trusts are commodity-based investments. A change in the underlying commodity price will affect the cash flow, which may affect the distributions to unitholders. The value of the trust will also reflect the quality of the underlying assets, since depletion and decline rates, environmental liabilities and the reserve life will influence future distributions.

Among the royalty trusts held in the Sentry Select Diversified Income Trust are ARC Energy Trust and Enerplus Resources Fund.

Income Trusts

Income trusts are similar to royalty trusts in that the trust owns securities issued by corporations. The income trust issues units and uses the proceeds to acquire equity or debt securities. The trust's ownership of the equity and/or debt of the company entitle it to the net cash flow generated by the assets held by the corporation. This is paid in the form of interest on the debt portion and dividends on the equity.

The largest difference between royalty trusts and income trusts is the nature of the underlying assets generating the income. The assets in an income trust do not involve the payment of royalties, and do not typically have the same ability to pass tax benefits along to the investor.

Among the income trusts held in the Sentry Select Diversified Income Trust are Superior Propane and ACS Freezers Income Trust.

ABOUT THE NAME CHANGE NCE Diversified Income Trust (TSE:NCD.UN) became Sentry Select Diversified Income Trust (TSE:SDT.UN) on March 1, 2001. The Trust's unitholders voted for the change at a meeting held November 29, 2000. The Trust's new name reflects the September change in portfolio management. On September 1, 2000 Sentry Select Capital Corp. was appointed as the new investment adviser to the Trust. Sentry Select also manages the Sentry Select mutual funds.

Q: Why would an operating company convert to an income trust structure?

A: Some companies do so to be able to provide more tax-effective income to their investors. Canada's taxation structure dictates that business profits are first taxed at the corporate level, with the after-tax earnings paid out as dividends then taxed again in the hands of the investor. An income trust increases the value to the unitholder by decreasing or even doing away with the corporate tax, while maximizing the distributions. Here's a simple example to illustrate the advantage of an income trust structure versus a corporate structure:

After-Tax Returns

	INCOME TRUST	CORPORATION
Pre-tax Business Income	$100	$100
Corporate Tax	-	$44
Distributions	$100	$56
Individual Tax Paid*	$48	$18
After-tax receipt	$52	$38

*If held outside a registered plan.

Assumes a 44% corporate tax rate, a 48% personal tax rate, a dividend tax of 32% and all distributions are income.

Real Estate Investment Trusts (REITs)

A real estate investment trust (REIT) is a particular type of trust that derives its income from real estate investments. These investments can be properties such as commercial real estate, shopping malls, apartment buildings, smaller multiple-unit industrial buildings, office properties and extended-care homes.

The most common type of REIT is an equity REIT. A REIT will sell shares of its trust through an initial offering, then use the proceeds to acquire income-producing properties. It may also borrow additional funds, though this is typically limited to a percentage of assets. The trust receives income in the form of rents, from either commercial or residential tenants, and typically pays out 90% of the income.

Among the REIT held in the Sentry Select Diversified Income Trust are RioCan Real Estate Investment Trust and Legacy Hotels Real Estate Investment Trust.

Limited Partnerships (LPs)

A limited partnership is one of the simpler structures. Investors can purchase units of a limited partnership, which in turn owns the assets of an underlying business (as opposed to an income trust in which equity or debt is owned, or a royalty trust, in which the royalty interest is owned). While its simplicity is appealing, limited partnership

[DIVERSIFIED [illegible]]

December 10, 1996	February 28, 1997	March 31, 1997	March 13, 1998	October 15, 1998	February 19, 1999
NCE Diversified Income Trust files preliminary prospectus.	NCE Diversified Income Trust completes initial public offering for $139 million.	[illegible]	[illegible]	[illegible]	[illegible]

units are generally treated as foreign property under Canadian tax laws, and may not be owned by non-residents.

Among the limited partnerships held in the Sentry Select Diversified Income Trust are Koch Pipelines and Fort Chicago Energy Partners.

Sentry Select Diversified I[illegible] An Attractive Income Alterna[illegible]

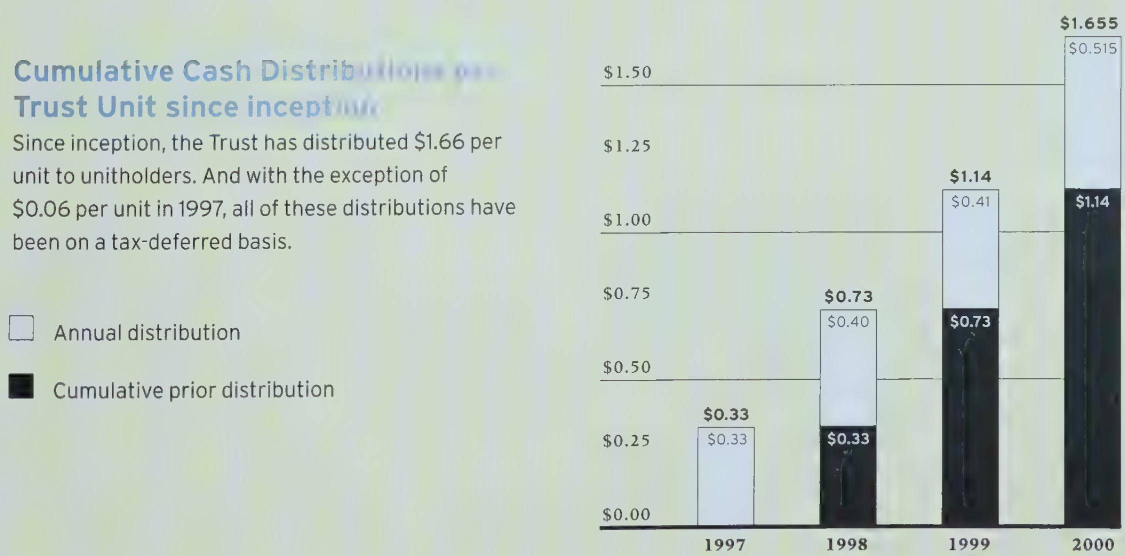
A single royalty or income trust is subject to a number of influences. A royalty trust that invests in energy will tend to fluctuate in value with energy prices. REITs are subject to the movements of the real estate market and interest rates. Relying on a single income product in any of these sectors may not fit the risk/return profile of an investor who needs a steady stream of income and preservation of capital.

Most equity investors feel safer investing in a portfolio of stocks rather than holding a single corporation's shares. Sentry Select Diversified Income Trust provides a similar benefit for income and royalty trust investors. Selecting a broadly diversified collection of trusts and other high-yield investments, the Trust provides investors with the advantages of royalty and income trusts, and the additional advantage of diversification.

The diversification is designed to provide stability to the Trust's portfolio. This provides a

Cumulative Cash Distrib[illegible] Trust Unit since incept[illegible]

Since inception, the Trust has distributed $1.66 per unit to unitholders. And with the exception of $0.06 per unit in 1997, all of these distributions have been on a tax-deferred basis.



[DIVERSIFIED INCOME TRUST TIMELINE]

June 10, 1999	August 13, 1999	September 28, 1999	November 3, 1999	November 26, 1999	January 24, 2000
Unitholders approve a change to the declaration of trust, removing a requirement that had forced the Trust [illegible] 75% of its investments in oil [illegible]	NCE Diversified Income Trust announces quarterly mandatory redemption at Net Asset Value and Unitholder Rights Plan. A normalized distribution plan is also announced.	NCE Diversified Income Trust announces a regular distribution of 3.5 cents per unit plus an additional 2.5 cents per unit for September.	NCE Diversified Income Trust announces reduction in management fee to enhance yield.	NCE Diversified Income Trust files preliminary prospectus for exchange offer and warrant issue. The exchange offer closes in January 2000 and is worth $13 million.	NCE Diversified Income Trust announces its regular monthly distributions are being increased to four cents ($0.04) per unit.

[illegible] and gas royalty [illegible] distributions [illegible] assets?

[illegible]

significant benefit to investors – the ability to generate a steady, predictable stream of distributions, without having to rely on distributing capital. During the market pessimism of 1998 and 1999, the Trust maintained and increased its distributions to unitholders, and did not make payments from capital. This is an important point of differentiation between Sentry Select Diversified Income Trust and other similar investments.

For example, consider the differences between an income trust and a dividend fund used to meet an investor's income needs. Canadian dividend funds generally enjoyed a very prosperous year in 2000. Investing in them may have seemed like a very wise choice, based on simple return figures. But where did those returns come from? The typical dividend fund had a dividend yield of approximately 2% to 4%. The rest of the return came from capital gains – the appreciation in the stock prices of the portfolio. In essence, those returns come from taking equity market risk – a risk that can backfire when equity markets move downward. To use one example, Nortel paid a very small dividend last year. Its yield was about 1/10 of 1%. If Nortel was in the portfolio of a dividend fund, the manager was making a bet on the direction of the stock, not on the conservative income potential of Nortel's dividends.

The Future of Income Trusts

The long-term factors that favour income trusts are relatively simple to understand. Canadian investors will soon need more income. The demographic bulge sometimes called the "baby boom" has been primarily focused on capital appreciation, as Canadians have invested to generate sufficient savings for retirement. Soon, that focus will change from capital growth to the need for a dependable income stream. Institutional investors will face the same pressures. Consider the fate of

March 7, 2000	August 31, 2000	November 14, 2000	November 29, 2000	February 28, 2001	March 1, 2001
NCE Diversified Income Trust announces an additional 2.5 cents ($0.025) per unit distribution will accompany this month's regular 4 cent ($0.04) per unit distribution.	NCE Diversified Income Trust announces a new investment adviser – Sentry Select Capital Corp. – and new portfolio manager Sandy McIntyre.	NCE Diversified Income Trust announces its regular monthly distributions are being inc [illegible] 4.5 cents [illegible] per unit	[illegible]	[illegible]	[illegible]

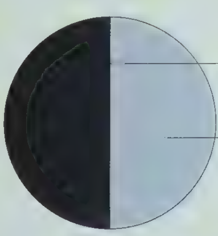
some private pension plans as fewer and fewer active workers contribute to the income needs of a growing number of retirees.

There are short-term factors that favour income trusts as well. Inflation is subdued, even with strong energy prices. Interest rates are low, and are expected to remain low. As fixed-rate investments (bonds, GICs) mature, investors may not be enticed by the lower rates available on renewal. The higher-yield trust alternatives will appeal to many investors. Trusts that invest in oil and gas may also be particularly attractive for those investors looking to profit from the recent energy price increases. Low vacancy rates and a generally prosperous economy bode well for real estate investments.

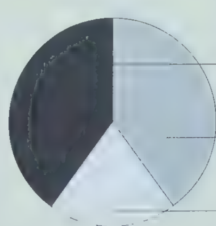
It seems likely that individual and institutional investors will increasingly consider royalty and income trusts as part of the solution to meet those income needs. Sentry Select Diversified Income Trust's management team is committed to delivering superior investment results. That commitment, and the Trust's outstanding track record, point to continued success for current and future investors.

How Sentry Select Diversified Inc[illegible]

Take a balanced portfolio, with half in equities yielding 2% and half in bonds yielding 5.5%. The portfolio yield is 3.75%, before capital gains. Give 20% of the portfolio over to Sentry Select Diversified Income Trust, taking the portions equally from the bond and the equity investments. If the Trust continues to yield 12%*, the portfolio's effective yield increases to 5.4%.



	Yield	Weighting	Yield
Equities	2.0%	50%	1.0%
Bonds	5.5%	50%	2.75%
Total			**3.75%**



	Yield	Weighting	Yield
Equities	2.0%	40%	0.8%
Bonds	5.5%	40%	2.2%
Sentry Select DIT	12.0%	20%	2.4%
Total			**5.4%**

**Income trusts are not a pure fixed-income vehicle. A steady stream of income is not guaranteed. Returns and cash flow will fluctuate, depending on the cycles of the economy.*

"We meet management. We go on plant tours. We want to ensure that the long-term viability of the asset is there, because we're making a long-term decision to commit capital for the investor."

[AN INTERVIEW WITH SANDY MCINTYRE]

What kind of changes have you brought to the Trust since you joined Sentry Select in September?

There were two key objectives I wanted to achieve. One was income stability, and to do that we needed to generate a forward-looking model that would tell me what my underlying investments were going to generate two years ahead – or at least as far ahead as data can be mined. And for those forecasts, I am largely looking to company guidance, where possible, and industry analysts. I have maintained quite a sophisticated monitoring setup to keep this working. It takes a lot of time. According to my forecast, after all our expenses we are covering the 4.5 cents per unit we are distributing each month. If we run into a change in the oil price structure, then we may have to adjust the distribution amount.

The other objective was to be a pure income trust, to get away from investments that were placed in bonds and stocks with a view to growing net asset value at the expense of income. If we have a distribution rate that requires a 12% yield on the portfolio and we are earning 3% on a stock, we have a negative spread. We would have to cover that through capital appreciation. That is more speculative than I want to be.

Then how does the Trust get capital appreciation?

The approach that I have taken is to go within the sector and say: 'Let's spend the time, let's spend the effort to go out and build the models, to meet management, learn the businesses and identify opportunities where we can buy good assets cheaply and get a capital gain.'

It's an area where Diversified Income Trust had not had a lot of exposure prior to my coming aboard. It is in this world of under-recognized assets that I think we can really make a difference.

[illegible] with that for [illegible]

Yield at the expense of capital is not an acceptable result. What you want at the end of the day is to deliver a high level of cash flow to the investor, and have the investor be able to come back in 10 years time and see that the capital base that was given to us to invest on their behalf has grown.

[illegible] time horizon

This is not a sector to trade for capital gains. This is a sector to buy for long-term stable cash flows.

How do you eva[illegible] in a particular trust [illegible]

These trusts are constructed in such a way that the dollars that would normally flow to retained earnings on a company balance sheet are paid out to the investor. In that type of a situation, management's ability to reinvest in the business is constrained. We are looking for management that has a capability of managing effectively where capital is tight. We would tend to avoid situations where variable costs form a large portion of the cost structure of the operating company.

We build a model that includes the quarterly results from the inception of the trust to the most recent quarter. We look for what are essentially good businesses. We look for an ability of

management to maintain profit margins, to grow distributions, to ensure, in what is essentially an equity instrument, that there is a stability and a growth slope to the cash flow.

[illegible] to trusts as equity instruments. [illegible] h difference is there between the way [illegible] income trusts and the way you [illegible]

There is absolutely nothing different in what I'm doing here than when I was analyzing stocks for inclusion in an equity portfolio. We want free cash flow, freedom from capital markets, barriers to entry, superior management and control over variable costs. These basic principles will deliver a sound long-term portfolio.

[illegible] re there to choose from [illegible] do you invest in?

There are roughly 66 trusts to choose from in the sector. We want to run the portfolio with around 30 names in there. With that number we can have a decent weight and good stable long-term assets. We can have an investment that is large enough to be meaningful in some undervalued assets where we feel there is turnaround taking place, but in the event something goes wrong, it's not a disaster to the portfolio.

[illegible] that income trusts [illegible] against?

The most widely used benchmark is the Scotia Capital Markets Income Trust Index. That includes conventional oil and gas royalty trusts, real estate investment trusts (REITs), infrastructure trusts and resource trusts. In constructing the portfolio, we want to have a higher total return than the Scotia Capital benchmark has delivered.

Do you consider those benchmark weightings when you're managing the portfolio?

No. I'm cognisant of the benchmark sector weights because that is the primary contributor to outperformance or underperformance. The selection, however is 100% bottom-up. Portfolio managers can get the sector weighting right but if they choose bad businesses, the portfolios still blow up. I want to ensure that our approach to the sectors is sound, and that even if we're wrong on the sector, we still own a good business.

Will you ever hold cash in the portfolio?

If we are carrying cash, we have to be absolutely convinced the market is going down. To my way of thinking, it is critical to have the distributions covered, because that is why people buy this product. If we are bullish on the sector, we will use the line of credit and be overinvested. If we are bearish on the sector, we will not have a line of credit.

What else differentiates the Trust from other similar investments?

I would say that there is no one on the street who has gone into the depth of analysis that the Sentry Select team has undertaken to understand the trust market and understand the individual operating companies. We meet management. We go on plant tours. We want to ensure that the long-term viability of the asset is there, because we're making a long-term decision to commit capital for the investor.

> "This is not a sector to trade for capital gains. This is a sector to buy for long-term stable cash flows."

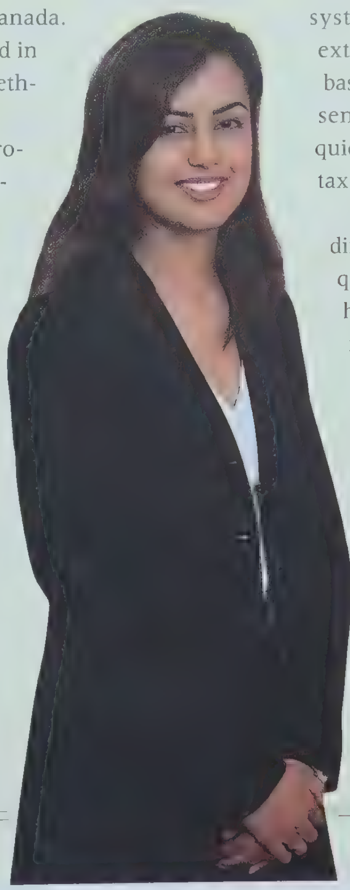
"It's our responsibility to ensure that our customers get the answers to whatever questions they have. But more importantly, we want to meet and exceed our customers' expectations so there is no hesitation to call the next time."

JOTI SINGH
Sentry Select Investor Services Representative

Thousands of investors have entrusted their savings to Sentry Select Diversified Income Trust. That's a tremendous show of support to the investment management team. Moreover, it's also a show of confidence in the other qualified and dedicated professionals who support the Trust.

Much of this report has emphasized how income and royalty trusts work for investors, and how the investment managers work to add value. Another way that value is added is through the dedicated service provided by employees across Canada. At every level of the organization, and in each department, employees work together to serve investors.

This includes accountants who provide timely fund information, the technical support staff that keeps networks and computers running smoothly, the designers and writers who support the web site and the sales staff who work with investment professionals across the country to promote and support the Trust.



For investors, however, most contact comes through our dedicated Investor Services team. On any given day, an investor service rep will be asked questions about a monthly distribution amount, how to replace a lost cheque, how to handle an estate transfer, or some basic questions about tax considerations on an investment. That's all in the name of providing more value for investors.

As the investor base has grown, so has the team of investor service representatives, each of whom holds the Canadian Securities Course designation as a minimum qualification.

The company works to stay on the leading edge of technology, again to offer more value to investors, including state-of-the-art computer software, hardware and networks, a sophisticated telephone system and direct, on-line access to our external transfer agent's unitholder database. This allows our investor service representatives to respond to investors' needs quickly and efficiently, even during the busy tax season.

The value of all these services may be difficult to quantify. They don't appear on quarterly statements. But if an investor has lost a cheque, and needs to have it replaced quickly, knowing it can be handled in one phone call offers tremendous comfort and builds confidence. It's an aspect of value that is difficult to measure. All Sentry Select employees are committed to providing value to investors.

Our Investor Services representatives are available to speak with unitholders and their representatives Monday to Friday, from 8:00 a.m. to 6:00 p.m. (Eastern), or via e-mail at: **info@sentryselect.com.**

Sentry Select Diversified Income Trust

[illegible] Financial Review

2000 in Review

Sentry Select Capital Corp. assumed the management of Diversified Income Trust on September 1, 2000. The Sentry Select management team made income stability with capital growth the prime objective for the Trust. The portfolio was adjusted to ensure that the normalized 4 cent per month distribution could be maintained, as well as to provide for a potential increase in distributions. We are pleased to report that we were able to increase the regular monthly distribution to 4.5 cents in November.

During the year Scotia Capital Markets reorganized its Income Trust Index, the most broadly based benchmark for measuring income, royalty and real estate investment trust portfolios. We have organized our portfolio review to follow these new industry groupings.

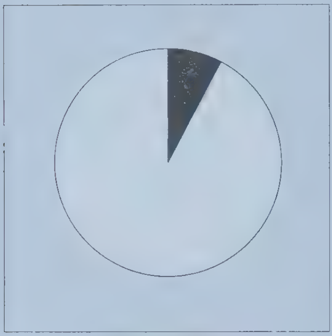
Oil and Gas Royalty Trusts – 32.1%

The Trust's exposure to this sector was increased late in the year, using proceeds from the sales of the Syncrude trusts (Athabasca and Canadian Oil Sands). Overall exposure to this sector is lower than at the end of 1999. During a period of strong prices for oil and particularly for natural gas, the Trust targeted companies able to maximize value by getting production to market quickly.

Oil and natural gas pricing in 2000 exceeded all analysts' expectations. As a result, cash distributions and the market value of conventional oil and gas trusts also exceeded expectations. In particular, Shiningbank Energy Income Fund had an outstanding year with a total return of 85.5%. Pengrowth Energy Trust returned 47.4%, and ARC Energy Trust gained 53.8%. ARC is the portfolio's largest holding. Although its

weighting in the portfolio was reduced to 11% by year end, ARC's consistent, predictable distributions continue to make it attractive.

Within the sector, the Trust increased exposure to natural gas through additions to holdings in EnerMark Income Fund and NAL Energy Trust and the addition of an investment in Enerplus Resources Fund. Each of these companies has more than 40% of production in gas, compared to an industry weight of 26% (weight by market capitalization). Two-thirds of Shiningbank's production is gas. At the end of the year, the Trust's gas weight was 32.5%.

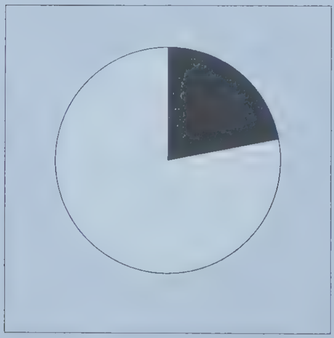


Resource Royalty Trusts – 7.7%

This sector includes the mining and Syncrude trusts. We reduced exposure to this sector to 7.7% from 14.1%, and decreased investment in the Syncrude trusts from 12.0% to 5.9%. The reduced holding in Canadian Oil Sands Trust reflects concerns about the cost structure and the risk to distributions if Syncrude's substantial capital expenditures occur during a period of low oil prices. The Syncrude expansion is expected to see peak expenditures in 2003. Subsequent to this, production should increase by a third. Both Athabasca and Canadian Oil Sands remain excellent investment opportunities for the longer term, but we prefer to access current distributable income today.

In the first part of the year, the Trust completed a program that began in 1999 to eliminate exposure to Luscar Coal Income Fund. The Trust has an emphasis on income. Luscar ceased distributions in order to conserve cash and provide the financial flexibility needed to restore the company to a sound financial footing. It is not expected to resume distributions for the foreseeable future.

We added to our position in Labrador Iron Ore Royalty Income Trust during the fall. Labrador is in the midst of both a mine expansion and the recommission of the Sept-Iles pellet plant. These developments have restricted distributable income for 1999 and 2000 but will result in higher volumes and improved product pricing in 2002. In December, Labrador became subject to a hostile takeover offer from Rio Tinto PLC, the largest shareholder of the Iron Ore Company of Canada.



Infrastructure Income Trusts – 21.9%

The Trust increased its exposure to this more stable sector of the industry from 16.7% at the end of 1999. This grouping includes pipelines, terminals and facilities, and operating companies.

Koch Pipelines Canada and Fort Chicago Limited Partnerships were added to the Trust, while Western Facilities was sold. Koch Pipelines and Pembina Pipeline Income Fund Trust are feeder pipelines, taking oil from the well to blending facilities where the oil is batched for long distance shipping. These businesses follow the oil price cycle but with less volatility. Barrels shipped increase and decrease with drilling activity.

Fort Chicago Limited Partnership is a direct investment in the Alliance Pipeline and a natural gas liquids plant located at Aux Sable, Illinois. The Alliance Pipeline was commissioned in December and is shipping liquids-rich gas to the Aux Sable fractionation plant, where the liquids are removed for use in the chemical

industry. The thermal content is replaced through the addition of dry gas. In periods of high gas prices, the replacement gas cost can put spreads under pressure. However, these periods have been short-lived, historically. This investment should provide a high level of distributable income when those spreads return to normal levels.

A fourth quarter court ruling allowed Superior Propane to consolidate operations with InterCity Gas. Although the Competition Bureau plans to appeal the ruling, the consolidation has begun with the merger of head office functions and the elimination of some duplicate facilities. The full benefit of the merger will be felt during the last half of 2001 and in 2002.

A number of interesting operating companies converted to the income trust structure in 1997. Some adapted well to this structure, but others disappointed investors. We have been examining these companies for overlooked opportunities. One good example of a holding added in 2000 is ACS Freezers Income Trust. The trust formerly operated as Associated Freezers until entering a plan of arrangement last summer with Atlas Cold Storage and the Toronto-Dominion Bank. Atlas brought a highly experienced management team, while the venture capital arm of the TD Bank helped recapitalize the company. Its business – frozen foods and storage facilities – is stable and growing. The trend in the industry is to build special purpose facilities under long-term contract. While there is exposure to rising energy costs, ACS has efficient energy management systems available to use off-peak power and it largely operates in regulated electric markets.

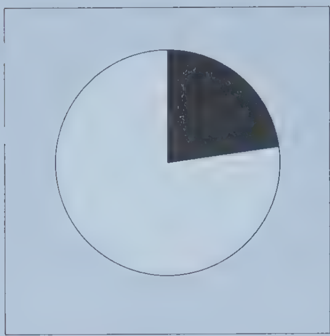
SCI Income Trust, the parent company for Simmons mattresses, may seem an unusual holding for a trust. SCI has modest capital requirements and generates high levels of free cash flow. The mattress business generates reliable profits – in its operating history SCI Income Trust and its predecessor companies have never recorded an annual loss. The trust structure recognizes the limited need to retain cash in the company, SCI is able to pay the bulk of its earnings to unitholders free of corporate taxation.

Power Income Trusts – 14.8%

The Trust increased its investment in the power sector during 2000, to 14.8% of portfolio from 10.8%. We like this sector's ability to generate stable long-term cash flows with very limited risk. The key variables in valuing this sector are a company's power purchase agreement and the energy input in the generation process. The Trust has had long-term investments in Northland and TransCanada Power. Both companies have long-term power sale agreements with Ontario Hydro. These contracts are binding on the Government of Ontario and will be honoured in a deregulated electricity market. They both operate co-generator facilities that have well-structured gas supply contracts.

During the year we added investments in two hydroelectric trusts, Algonquin Power and Great Lakes Power. The power sales agreements for these companies are quite different. Algonquin's contracts have staggered expiries and are with a variety of counterparties. In recent months it has become apparent that Algonquin could well sell off-contract power at premium prices to consumers who want "green power". Great Lakes has a 10-year power purchase agreement with a subsidiary of Brascan.

The principal risk to hydroelectric facilities is hydrology. Algonquin has run-of-river facilities that do not have the ability to store water and are affected by abnormally dry periods. Algonquin has actively managed the portfolio to mitigate this risk by investing in a variety of watersheds. Great Lakes has less hydrological risk as its facilities have reservoirs to help maintain production during dry spells. However it is principally exposed to one watershed in Quebec. In early 2001, it made an investment in a B.C. hydroelectric project.



Real Estate Investment Trusts – 22.5%

The Trust also added to this sector in 2000, raising the weight from 20% to 22.5%. This was accomplished by adding to existing holdings such as RioCan Real Estate Investment Trust and H&R REIT. Core positions in the low-risk apartment REITs were maintained, while CPL REIT was eliminated.

We have accumulated a position in Legacy Hotels REIT. This REIT was established to own the business hotels in the Canadian Pacific portfolio. These hotels are operated under the Fairmont (formerly Canadian Pacific) and Delta brands. Hotels owned include the Royal York in Toronto, the Queen Elizabeth in Montreal and the Palliser in Calgary. This mandate was expanded in late 2000 to include resort hotels through the purchase of the Chateau Frontenac in Quebec City and the Empress in Victoria. Hotels have a reputation for performing poorly in recessions. However, Legacy's high-quality assets should provide returns above industry averages. The Trust has selectively added to its position on price weakness.

Outlook

Conventional Oil and Gas Royalty Trusts

Our view on oil and gas pricing is positive. We anticipate maintaining our overall exposure to these commodities at the current level with an investment bias to conventional versus long-life trusts.

We expect oil prices to remain strong through the year because of a combination of strong demand, constrained supply and low inventory levels. Conventional oil and gas trusts typically have high-quality production of light oil that receives top prices, and is relatively unaffected by increasing production of lower quality crudes.

Late in 2000, it became clear that U.S. economic growth rates were slowing. In response to the expected lower demand for crude, OPEC reduced production in early 2001. Because OPEC does not want a return to US$11 oil, it is anticipated that OPEC will move quickly to reduce production to balance the market if there is significant downward pressure on prices. As a result, there should be reasonable price stability in oil markets at levels in excess of the long-term average.

New oil supply will come on stream in response to the stable pricing environment, which should lead to price declines over time. However, there are no major new oil fields to displace OPECs pricing power. We do not see a North Sea or Alaskan–scale discovery coming into the market.

The gas market is much more buoyant. Consumption is being driven by new gas-fired electric generation capacity. The solution to the current electricity crisis in the Western United States is more gas-fired generation. Supply has been unable to meet demand, even with a record number of wells drilled in Canada and the United States. Companies are finding production is declining in both new and existing gas wells at a much faster rate than in the past. A record number of wells is needed to replace this declining production, and we do not see a short-term solution. In the longer term, frontier gas from Alaska and the Mackenzie Delta will be necessary. This gas needs five to seven years lead time to reach market. We expect natural gas prices to stay above the long-term average.

Our views on gas pricing, together with the massive capital requirement for the Syncrude expansion, lead us to underweight the Syncrude trusts. In time, we expect to add to existing positions as Syncrude is the premier trust asset. We are avoiding other investments in resource trusts (coal and timber) due to commodity price risk in a deteriorating economic environment.

The Trust's overall direct exposure to resources (oil, gas, coal, iron ore and forest products) is 40.2% versus 49.1% a year ago and 46.7% for the Scotia Capital Markets Income Trust Index. This transition was undertaken to enhance stability of distributions.

Infrastructure Income Trusts

We have a strong bias towards these investments. While they are cyclical in nature, the cycles are much more muted than those found in commodity investments. Pipelines will experience some volatility in throughput as drilling ebbs and flows, but they will still receive tolls and have distributable income. The assets in this sector are long-lived, as long as sustaining capital expenditures are made. We will continue to increase the Trust's exposure to this sector while maintaining current levels of distributable income.

Real Estate Investment Trusts

As with the infrastructure trusts, we will continue to add to the REITs. The recovery from the real estate excesses of the 1980s has instilled operating discipline and strong balance sheets in the sector. There is little capital available for speculative building, and companies that are perceived to have weak balance sheets or speculative properties are quickly punished in the market. Real estate has always been about quality and location. We will continue to add to quality investments.

Management's Discussion and Analysis

Cash Distributions

Cash distributions to unitholders were $0.515 per unit for the year ended December 31, 2000, compared to $0.41 for the same period in 1999. The higher price for oil and natural gas generated record distributions from the oil and gas royalty trusts in the portfolio. This helped the Trust to increase monthly distribution amounts to $0.045 per unit from $0.04 per unit in November. An additional special distribution of $0.025 per unit was declared in March. So long as oil prices remain above US$25.00 and gas prices above CDN$6.25, we should be able to continue with the $0.045 monthly distributions.

All of these distributions were treated as a return of capital for income tax purposes, and as such, unitholder distributions were 100% tax-deferred. Due to strong commodity prices, a number of portfolio holdings are now distributing income that is taxable. We expect that there will be a taxable component to the Trust's distributions for 2001.

Portfolio Performance

The Trusts's Net Asset Value (NAV) per unit has continued to improve, primarily due to the rise in the market place of many royalty and income trusts that in turn benefit from higher energy and commodity prices. The NAV per unit improved to $4.70 per unit at the end of 2000, up from $4.29 per unit at the end of 1999. In addition, in January 2000 each unitholder received a warrant to purchase an additional unit of the trust at a price of $3.5113. (See the Warrant Exercise section below.) If all warrants were exercised, the year-end NAV (fully diluted) would have been $4.23.

At December 29, 2000, the warrant closing price on the Toronto Stock Exchange was $0.10. The Trust's market price increased to $3.67 at year end, up from $3.42 at the end of 1999. Investors who held their units from December 31, 1999 to December 31, 2000 would have received $0.515 in distributions, an increase of $0.25 in market value of the Trust unit and a warrant valued at $0.10, for a total gain of $0.865. This is a 25.3% return on the December 31, 1999 price of $3.42. If the monthly distributions were reinvested in the Trust, the rate of return increases to 26.1%.

At the end of the year, total assets under management were $128,203,507, which represents an increase of 45.9% from the total assets under management at the end of 1999. The increase in assets was due to three factors: the January, 2000 exchange offer, which resulted in the issuance of more than 3.7 million units, the exercise of some warrants during the year and portfolio appreciation.

Warrant Exercise

An Exchange Offering introduced in 1999 closed January 13, 2000. As part of this transaction, the Trust acquired approximately $13 million in securities in various royalty trusts, income trusts and limited partnerships by issuing 3,705,017 Trust units and warrants. The Trust also issued 20,467,082 warrants to existing unitholders. Each warrant entitled the holder to purchase one unit at a price of $3.5113 on or before February 28, 2001.

A total of 22,290,395 warrants were exercised by the February 28, 2001 deadline. This represents 92.2 % of the warrants issued. The total proceeds from the warrant exercise were $78,239,286.

Liquidity and Capital Resources

The Trust is a closed-end investment trust. Its objective is to maximize cash distributions to unitholders. Monthly distributions are equal to the income and other distributions which the Trust has received or realized from investments during the month, less estimated expenses and taxes.

The Trust funds additional investments through equity issues, supplemented by bank loans. The Trust does not consider substantial levels of debt financing appropriate and the Trust Indenture limits borrowings to 25% of total assets. The Trust has negotiated a revolving credit facility for investment and operating purposes. In advance of the warrant exercise deadline of February 28, 2001, the Trust negotiated an increase in its line of credit to $21,000,000.

The Trust derives substantially all its income from investment sources. Accounts receivable are settled on a monthly or quarterly basis and accounts payable are settled on a monthly basis. Working capital liquidity is maintained through drawings and repayments on the revolving credit facility.

Right of Redemption and Mandatory Market Purchase Programs

The Right of Redemption Program provided unitholders with the privilege of redeeming units at the Net Asset Value of the Fund at the end of each quarter, up to a total of 1.25% of the total number of outstanding units at the end of the quarter. This program was in effect for the first three quarters of the year. Under the Right of Redemption Program, a total of 936,327 units were redeemed at an average price of $4.3754.

In November, unitholders approved a Mandatory Market Purchase Program to effectively replace the Right of Redemption program. Under this program, the Trust will be obligated to purchase any units offered in the market at the then-prevailing market price, if at any time the market price for any units offered for

sale is less than 90% of the Net Asset Value per unit (ie, a 10% discount to NAV) determined at the beginning of each calendar quarter. The maximum number of units must not exceed 1.25% of the total number of units outstanding at the beginning of the quarter.

The 10% discount to NAV was selected as the level to act on the mandatory repurchases as it was close to the fully diluted discount that the units had been trading at, when the program was initiated.

We believe this program will be more effective in decreasing the spread between the Net Asset Value and the market price of the units and will improve liquidity. Also, it is anticipated that the program will have a beneficial effect on the value of the Trust for unitholders who remain invested. Units will be repurchased for cancellation at market prices rather than at the Net Asset Value, increasing the NAV for the remaining units. We expect this program to be more effective and less costly to administer than the redemption program and will ultimately benefit all unitholders. Under the Mandatory Market Purchase Program, a total of 324,334 units were purchased at an average price of $3.6497 for the period.

Normal Course Issuer Bid

Pursuant to the Trust's normal course issuer bid commencing January 18, 2000, the Trust acquired 345,356 units at an average price of $3.5951 by the close of business January 17, 2001. The Trust renewed its normal course issuer bid effective January 23, 2001 pursuant to which the Trust may purchase up to 1,423,383 units for cancellation prior to January 22, 2002.

Other Changes

Unitholders approved an amendment, effective November 29, 2000, providing for the payment of distributions in cash rather than the automatic reinvestment of distributions in units. Unitholders also approved a name change, effective March 1, 2001, to Sentry Select Diversified Income Trust, to better reflect the change in investment management. Its trading symbol on the TSE changed from NCD.UN to SDT.UN.

Management's Report

These financial statements are the responsibility of the management of NCE Diversified Management Inc. (the "Manager"). They have been prepared in accordance with Canadian generally accepted accounting principles using the best estimates and judgments, where appropriate. The Manager is responsible for the reliability and integrity of the financial information, notes to the financial statements and other financial information contained in this report. Estimates are necessary in the preparation of financial statements because a precise determination of some assets and liabilities depends on future events. The Manager has based these estimates on careful judgment and believes they are properly reflected in the accompanying financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of the Manager is responsible for ensuring that the Manager fulfils its responsibilities for financial reporting and internal controls. The Board meets with the Manager to ensure that the Manager's responsibilities are fulfilled, to review financial statements and to recommend approval of the financial statements.

An independent auditor appointed by the Manager, Arthur Andersen LLP, has audited the financial statements of Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust) in accordance with Canadian generally accepted auditing standards and has provided an independent professional opinion. The auditors have full and unrestricted access to the Board to discuss their audit and related findings as to the integrity of the financial reporting process.

John F. Driscoll
President and Director
March 17, 2001

John Vooglaid
Vice-President, Treasurer

Auditors' Report

To the Unitholders of Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust)
We have audited the statement of portfolio investments of NCE Diversified Income Trust (the "Trust") as at December 31, 2000, the statements of net assets as at December 31, 2000 and 1999, the statements of operations, net realized gain (loss) on sale of investments, and changes in net assets for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of management of NCE Diversified Management Inc. (the "Manager"). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing statements. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2000 and 1999, the results of its operations and the changes in its net assets for the years ended December 31, 2000 and 1999 in accordance with Canadian generally accepted accounting principles.

Arthur Andersen LLP

March 17, 2001
Toronto, Ontario

Arthur Andersen LLP
Chartered Accountants

Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust)

Statements of Net Assets

AS AT DECEMBER 31	2000	1999
Assets		
Investments, at market value	$ 128,238,508	$ 96,852,105
Cash and short-term investments	4,415,883	3,935,950
Interest and distributions receivable	2,102,399	1,269,077
Receivable for warrants exercised	385,605	–
Prepaid expenses	50,084	–
Deferred finance cost	–	1,237,494
	135,192,479	103,294,626
Liabilities		
Accounts payable and accrued liabilities	1,201,940	4,571,529
Payable for investments purchased	1,255,265	–
Distributions payable to unitholders	1,247,560	861,141
Bank loan (Note 3)	2,000,000	10,000,000
	5,704,765	15,432,670
Net Assets	$ 129,487,714	$87,861,956
Units Outstanding (Note 5)	27,556,630	20,467,082
Net Asset Value per Unit	$ 4.70	$ 4.29

Approved on behalf of NCE Diversified Income Trust by the Board of Directors of NCE Diversified Management Inc., the Manager:

John F. Driscoll
Director

Richard Zarzeczny
Director

The accompanying notes are an integral part of these financial statements.

Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust)

Statements of Operations

FOR THE YEARS ENDED DECEMBER 31	**2000**	1999
Investment Income		
Distributions and royalties	$ 15,718,266	$ 11,893,635
Foreign distributions, net of withholding tax	211,660	–
Interest	253,426	66,207
	16,183,352	11,959,842
Expenses (Note 4)		
Management fees	1,777,915	1,880,600
Interest and commitment fees	644,005	461,506
Printing and reporting	344,822	170,676
Trustee, custodian and transfer agent	204,698	205,656
Legal and audit	152,381	168,332
Other expenses	145,170	183,931
Listing fees	35,068	15,415
Insurance	26,016	28,959
	3,330,075	3,115,075
Net investment income	12,853,277	8,844,767
Net realized gain (loss) on sale of investments	5,019,925	(6,953,732)
Change in unrealized appreciation in value of investments	22,346,733	25,885,824
Net realized and unrealized gain on investments	27,366,658	18,932,092
Increase in net assets from operations	$ 40,219,935	$ 27,776,859

The accompanying notes are an integral part of these financial statements.

Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust)

Statements of Changes in Net Assets

FOR THE YEARS ENDED DECEMBER 31	2000	1999
Net assets, beginning of year	$ 87,861,956	$ 83,424,589
Increase (decrease) in net assets from operations		
Net investment income	12,853,277	8,844,767
Return of capital	(8,324,224)	(8,392,463)
Net realized gain (loss) on sale of investments	5,019,925	(6,953,732)
Change in unrealized appreciation in value of investments	22,346,733	25,885,824
	31,895,711	19,384,396
Unitholder distributions	(12,910,586)	(8,788,300)
Unitholder transactions		
Issuance of Trust units	13,009,426	–
Exercise of warrants	17,342,030	–
Costs of issue	(1,164,736)	–
Redemption of Trust units	(4,096,761)	(3,711,808)
Repurchase of Trust units	(2,449,326)	(2,446,921)
	22,640,633	(6,158,729)
Net assets, end of year	$ 129,487,714	$ 87,861,956

The accompanying notes are an integral part of these financial statements.

Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust)

Statements of Net Realized Gain (Loss) on Sale of Investments

FOR THE YEARS ENDED DECEMBER 31	**2000**	1999
Proceeds from sales of investments	$ 49,109,844	$ 33,229,547
Cost of investments, beginning of year	94,343,086	111,721,390
Return of capital	(8,324,224)	(8,392,463)
Cost of investments purchased	61,455,210	31,197,438
	147,474,072	134,526,365
Cost of investments, end of year	103,384,153	94,343,086
Cost of investments sold	44,089,919	40,183,279
Net realized gain (loss) on sale of investments	$ 5,019,925	$ (6,953,732)

The accompanying notes are an integral part of these financial statements.

Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust)

Statement of Investment Portfolio

DECEMBER 31, 2000

Investments	Number	Average Cost	Market Value	% of Net Assets
Conventional Royalty Oil and Gas				
ARC Energy Trust	1,250,000	7,182,239	$ 14,125,000	10.91%
Shiningbank Energy Income Trust	325,000	2,924,164	5,525,000	4.27%
NAL Oil & Gas Trust	638,500	4,548,664	5,523,025	4.26%
EnerMark Income Funds	1,200,000	5,629,487	5,292,000	4.09%
Pengrowth Energy Trust	270,000	4,122,329	5,184,000	4.00%
Viking Energy Royalty Trust	375,000	2,665,256	3,206,250	2.48%
Enerplus Resources Fund	120,000	2,689,176	2,748,000	2.12%
		29,761,315	41,603,275	32.13%
Long-life Royalty Trusts				
Canadian Oil Sands Trust	260,000	4,499,285	7,514,000	5.80%
Labrador Iron Ore Income Fund	175,000	1,884,481	2,450,000	1.89%
		6,383,766	9,964,000	7.69%
Power Generation Income Trusts				
Northland Power Income Trust	725,000	5,213,914	6,416,250	4.96%
TransCanada Power Limited Partnership	200,000	4,500,906	5,500,000	4.25%
Great Lakes Hydro Income Fund	350,000	3,481,940	4,165,000	3.22%
Algonquin Power Income Fund	200,000	1,537,931	2,020,000	1.56%
KMS Power Income Fund	126,000	1,034,517	1,102,500	0.84%
		15,769,208	19,203,750	14.83%
Pipeline and Gas Distribution Income Trusts				
Pembina Pipeline Income Fund	800,000	7,115,160	7,000,000	5.41%
Fort Chicago Energy Partners, LLP	400,000	3,460,000	3,400,000	2.62%
Koch Pipelines Canadian Limited Partnership	550,000	2,685,816	3,135,000	2.42%
		13,260,976	13,535,000	10.45%
Real Estate Investment Trusts (REITs)				
Riocan Real Estate Investment Trust	960,000	7,952,942	9,024,000	6.97%
H&R Real Estate Investment Trust	450,000	4,754,665	5,332,500	4.12%
Residential Equities Real Estate Investment Trust	350,000	3,012,112	4,445,000	3.43%
Canadian Apartment Properties Real Estate Investment Trust	350,000	3,006,759	4,235,000	3.27%
Legacy Hotels Real Estate Investment Trust	200,000	1,683,650	1,690,000	1.31%
Royal Host Real Estate Investment Trust	250,000	1,594,636	1,575,000	1.21%
		22,004,764	26,301,500	20.31%
Other				
Superior Propane Income Fund	575,000	7,363,799	8,998,750	6.95%
ACS Freezers Income Trust	350,000	2,774,735	2,747,500	2.12%
SCI Income Trust	162,400	1,634,800	1,753,920	1.35%
Hollinger Canadian Newspapers Limited Partnership	275,000	1,918,369	1,320,000	1.03%
		13,691,703	14,820,170	11.45%
U.S. Real Estate Investment Trusts (REITs)				
Health Care Realty Real Estate Investment Trust	50,000	1,277,557	1,592,794	1.23%
Health Care Real Estate Investment Trust	50,000	1,234,864	1,218,019	0.94%
		2,512,421	2,810,813	2.17%
Total portfolio of investments		103,384,153	128,238,508	99.03%
Cash and other assets, net of liabilities			1,249,206	0.97%
Net Assets			$ 129,487,714	100.00%

The accompanying notes are an integral part of these financial statements.

Sentry Select Diversified Income Trust (formerly NCE Diversified Income Trust)

Notes to Financial Statements

DECEMBER 31, 2000 AND 1999

Note 1 . Organization of the Trust

NCE Diversified Income Trust (the "Trust") is a closed-end investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated January 17, 1997. NCE Diversified Management Inc. acted as manager of the Trust until August 31, 2000. Effective September 1, 2000, the manager was changed to Sentry Select Capital Corp.(the "Manager"), a corporation incorporated under the laws of the Province of Ontario. Montreal Trust Company of Canada (the "Trustee") is the trustee of the Trust and the custodian of the Trust's assets.

The investment objective of the Trust is to maximize monthly distributions primarily through investment in securities of royalty and income trusts. At least 75% of the Trust's assets are to be invested in securities of energy-related royalty and income trusts including, but not limited to, oil and gas, propane gas, pipelines, and coal royalty and income trusts with the remaining assets being primarily invested in securities of resource-oriented royalty and income trusts and real estate investment trusts.

At a special meeting of unitholders held on June 10, 1999 amendments to the Declaration of Trust were approved to change the investment objectives of the Trust by eliminating the minimum percentage of the Trust's assets which may be invested in investments of energy-related royalty and income trusts and the requirement that the remaining assets of the Trust be invested primarily in securities of other resource-oriented royalty and income trusts and real estate investments trusts.

Note 2 . Summary of Significant Accounting Policies

Valuation of investments Investments are valued at the closing price each day on the recognized stock exchange on which the investments are listed or principally traded. Investments not traded on that date are valued at bid price.

Investment transactions and income recognition Investment transactions are accounted for on a trade date plus one business day basis. Distributions and royalty income are recorded on the ex-dividend date. Interest is recorded on an accrual basis. Gains or losses arising from the sale of investments and unrealized appreciation or depreciation in value of investments are determined on an average cost basis.

Return of capital Distributions that are treated as a return of capital for income tax purposes are separately identified within the Statement of Changes in Net Assets and are used to reduce the average cost of the underlying investments on the Statement of Investment Portfolio.

Income taxes The Trust qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on net income including net realized capital gains in the tax year, which is not paid or payable to unitholders during the year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes other than foreign withholding taxes, if applicable.

Trust unit valuation The units of the Trust are valued, as of the close of business of each day the Toronto Stock Exchange is open. The net asset value per unit is calculated as the value of the Trust's assets less its liabilities divided by the number of units outstanding at the time.

Use of estimates The financial statements are prepared in accordance with Canadian generally accepted accounting principles, which requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from these estimates.

Note 3 . Credit Facility

At December 31, 2000 the Trust maintained a revolving term credit facility of $11,000,000 (1999 – $11,000,000) that bears interest at prime plus 1% per annum. At December 31, 2000 the Trust had drawn on $2,000,000 (1999 – $10,000,000) of the credit facility. The loan is secured by the assignment of certain qualifying securities of the Trust. Total interest and commitment fees for the year were $644,005 (1999 – $461,506).

Note 4 . Management Fees and Operating Expenses

The Manager of the Trust provides investment and administrative services to the Trust for which the Manager is paid a management fee of 1.5% of the net asset value of the Trust, calculated on a daily basis. Prior to November 1, 1999 the management fee was 2% of the net asset value of the Trust, calculated on a daily basis. In addition, the Manager may receive its management fee, in whole or in part at its election, in the form of Trust units.

The Trust is responsible for payment of all expenses relating to the operation and the carrying on of its business, including legal, audit, trustee, custodial and safekeeping fees, taxes, brokerage commissions, operating and administrative costs, investor servicing costs of financial and other reports and prospectuses of the Trust.

Note 5 . Trust Units

The authorized capital of the Trust consists of an unlimited number of Trust units. Each unitholder in the Trust acquires units, which represent an undivided interest in the net assets of the Trust. All units are of the same class with equal rights and privileges and are entitled to one vote at any meeting of the unitholders and to equal participation in any distributions made by the Trust.

A summary of the number of units issued and redeemed during the years ended December 31, 2000 and 1999 is reported below:

	2000 Units	1999 Units
Balance, beginning of year	20,467,082	22,061,278
Normal course issuer bid	(345,356)	(716,700)
Redemption of units	(936,327)	(877,496)
Mandatory Market Purchase Plan	(324,334)	–
Exchange Offer	3,705,017	–
Warrants exercised	4,940,749	–
Management fees received as units	49,799	–
Balance, end of year	27,556,630	20,467,082

In November 1998, the Trust received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period November 13, 1998 to November 12, 1999. Under such program, the Trust may purchase up to 1,123,338 units on the open market through the facilities of the Toronto Stock Exchange. During 1999, 716,700 units were purchased under the issuer bid. In January 2000, the Trust received approval from the TSE to undertake a normal course issuer bid program for the period January 18, 2000 to January 17, 2001. Under such program the Trust may purchase up to 1,245,867 units on the open market through the facilities of the TSE. During 2000, 345,356 units were purchased under the issuer bid.

At a special meeting of unitholders held on December 13, 1999 amendments to the Declaration of Trust were approved to provide unitholders with a redemption privilege, subject to the Trust's ability to meet certain solvency tests. This privilege allows unitholders to redeem units at the Trust's net asset value at the end of a quarter. During 2000, the Trust redeemed 936,327 units (1999 – 877,496).

At a special meeting of unitholders held on November 29, 2000 unitholders decided to replace the redemption program with a mandatory market purchase program (the "Mandatory Market Purchase Program"). Under this program, the Trust will be obligated to purchase units at the prevailing market price if that price is less than 90% of the net asset value per unit determined at the beginning of each calendar quarter. The maximum number of units purchased may not exceed 1.25% of the total number of units outstanding at the beginning of the calendar quarter. During 2000, the Trust repurchased 324,334 units for cancellation under this program.

On January 13, 2000 the Trust issued 3,705,017 combined units and 20,467,082 warrants pursuant to an Exchange Offer, dated January 4, 2000. Each combined unit consisted of one Trust unit and one warrant. Each warrant entitled the holder to purchase one Trust unit at a price of $3.5113 at any time on or before February 28, 2001. During 2000, 4,940,749 warrants were exercised.

Note 6 . Income Taxes

The Trust has available capital loss carryforwards for income tax purposes totalling $2,000,000 and non-capital loss carry-forwards which expire as follows:

2004	$ 2,700,000
2005	2,700,000
2006	2,300,000

The benefits of these loss carry forwards have not been reflected in these financial statements.

Note 7 . Distributions

Pursuant to its Declaration of Trust, the Trust is required to distribute net investment income and net capital gains realized by the Trust to unitholders on a monthly and annual basis, respectively. Unitholders have the option of receiving their distributions either in cash or in the form of additional Trust units by way of automatic reinvestment.

Note 8 . Subsequent Events

On January 18, 2001 the Trust received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period January 23, 2001 to January 22, 2002. Under such a program, the Trust may purchase up to 1,423,383 units on the open market through the facilities of the Toronto Stock Exchange.

As of January 29, 2001, the revolving term credit facility was increased to $21,000,000.

During the period from January 1, 2001 to February 28, 2001 (the expiration date of the warrants), 17,349,646 warrants issued by the Trust pursuant to the Exchange Offer were exercised.

As at March 1, 2001, the NCE Diversified Income Trust changed its name to the Sentry Select Diversified Income Trust.

Note 9 . Comparative Figures

Certain comparative figures have been reclassified to conform to the year ended December 31, 2000 presentation.

[CORPORATE DIRECTORY]

NCE Diversified Management Inc. Directors and Officers

Directors
Frank J. Crothers
John F. Driscoll
John Nestor
Simon B. Scott, Q.C.
Richard J. Zarzeczny

Officers
John F. Driscoll
President

David M. Schwartz
Senior Vice-President

P. Jill Frick
Secretary

Glenn MacNeill
Vice-President, Investments

John Vooglaid
Vice-President, Treasurer

James A. (Sandy) McIntyre
Vice-President and Senior
Portfolio Manager

Sentry Select Capital Corp. Directors and Officers

John. F. Driscoll
President
and Chief Executive Officer

Glenn G. MacNeill
Vice-President, Investments

David M. Schwartz
Senior Vice-President,
Chief Operating Officer

John Vooglaid
Chief Financial Officer
and Treasurer

P. Jill Frick, Secretary

Donald J. Worth, Director

Simon B. Scott, Q.C., Director

James A. (Sandy) McIntyre
Vice-President and Senior
Portfolio Manager

David Gluckstein
Vice-President, Sales

Anita Bell
Vice-President, Marketing

Al Canale
Senior Vice-President

John Sinkins
Senior Portfolio Manager

Legal Counsel
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Toronto, Ontario

Auditors
Arthur Andersen LLP
Toronto, Ontario

Bankers
Royal Bank of Canada
Toronto, Ontario

Transfer Agent
Computershare Trust
Company of Canada
Calgary, Alberta

Sentry Select Diversified Income Trust

Legal Counsel
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Toronto, Ontario

Auditors
Arthur Andersen LLP
Toronto, Ontario

Bankers
Royal Bank of Canada
Toronto, Ontario
Scotiabank
Toronto, Ontario

Transfer Agent
Computershare Trust Company
of Canada
Toronto, Ontario

Stock Exchange Listings
Toronto Stock Exchange
Symbol: SDT.UN

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